

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION
PUBLIC DISCLOSURE**

First State Bank

Name of Institution
Junction

City
Texas

State
Mario E. Fuentes

Examiner-in-Charge

601 College Street

Street
Kimble

County
76849

Zip Code

Table Of Contents

Page

CRA PERFORMANCE ASSESSMENT

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First State Bank, Junction, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank's record of lending to low- and moderate-income individuals is significant considering 57 percent of consumer loans were made to people at low and moderate-income levels. Additionally, all loans made for small business purposes were made to businesses/individuals with annual revenues/incomes of \$250 thousand and less. The bank's loan-to-deposit ratio of 48.14 percent is higher than a larger national bank located in the same assessment area with a ratio of 33.64 percent, as well as a smaller bank (assets of \$14.5 million) located in an adjacent county with a loan-to-deposit ratio of 40.83%. Overall, the bank's record of meeting the needs of the community is excellent given the size of the community and available lending opportunities.

The institution's CRA rating at the last assessment as of October 17, 1994, was Outstanding.

The following table indicates the performance level of First State Bank, Junction, Texas, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First State Bank, Junction, Texas</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	Unable to perform a meaningful analysis due to lack of available data.		
Response to Complaints	No Complaints were received since the last examination.		

DESCRIPTION OF INSTITUTION

First State Bank is a locally-owned entity in Junction, Texas, with its main office located at 601 College Street. As of March 31, 1996, the bank had total assets of approximately \$19 million, a slight increase over the same period in 1995. At this time period, loans represented almost 45 percent of deposits. As was the case at the last assessment, the bank's primary lending emphasis is on consumer loans, which account for 51.40 percent of its portfolio. In addition, the bank also continues to have a presence in residential real estate (22.77 percent of loans) and agriculture (representing 11.32 percent of loans) lending. The bank has experienced a slight drop in total loans when compared to this same period last year. Management indicated the decrease in loans could be attributed to the drought the area has experienced. According to bank personnel, the lack of rain has not only affected the bank's agricultural lending, but the effects can also be seen on other borrowings as well. A review of the 1995 Uniform Bank Performance Reports revealed that the bank experienced the most decrease (53 percent) in agricultural lending when compared to March 1995 figures.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, or the lending opportunities available in the institution's assessment area, but it is somewhat affected by the economic factors present in the assessment area.

The asset distribution by loan type is as follows as of March 31, 1996:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 52	.68
Residential 1-4	1,737	22.77
Multifamily	0	0.00
Commercial	525	6.88
Agricultural	96	1.26
Total Real Estate	2,410	31.59
Consumer:		
Open-end credit	0	0.00
All other	3,920	51.40
Commercial and Industrial	402	5.27
Agricultural	863	11.32
State and Political Obligations	0	0.00
Other	32	0.42
Total	\$7,627	100.00%

DESCRIPTION OF KIMBLE COUNTY

The bank's assessment area has been defined as Kimble County. Junction, Texas, is the county seat and is the largest and only incorporated town in the county. Junction is 95 miles southeast of San Angelo, Texas, and 117 miles northwest of San Antonio. Kimble County was created from Bexar County in 1858 and was duly organized in 1876. The county is known as the "Land of living Waters" and according to the 1990 census bureau data has a population of 4,122. The census data also indicates that a significant percentage of the population is age 50 and over (38.6%), with the median household age being 41.2 years.

The area attracts visitors because it has several recreational facilities, including 14 tennis courts, nine swimming pools, and five recreational vehicle parks. During the hunting and fishing season, many people take advantage of the availability of facilities in the area. Major industries in the county include the Junction Independent School District, Texas Tech University Center (providing a Summer academic program and also a year-round conference facility), Cedar Fiber Company, Paks Corporation (cedar wood oil production), AERT, Inc. (wood products), Ad-Venturous Corporation (direct embroidery), and Chem-Pac, Inc. (cedar wood oil manufacturing).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The institution's loan-to-deposit ratio is reasonable in light of its performance context, which includes the institution's capacity to lend in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 48.14 percent. As of March 31, 1996, the bank's total loans represented 43.60 percent of total deposits. The unadjusted national peer ratio for the same period was 60.34 percent. A more meaningful comparison was made to the banks located in Kimble County as well as surrounding counties to better evaluate the bank's lending performance. When compared to a larger national bank located in Junction with assets of almost \$36 million, First State Bank's loan-to-deposit ratio was more favorable when compared to the larger bank's ratio of 33.64 percent. Another bank located in adjacent Mason County (asset size \$14.5 million) appeared to be a more closely matched institution to compare to First State. This bank had a loan-to-deposit ratio of 40.83 percent. Based on the data reviewed, the bank has an acceptable ratio.

LENDING IN ASSESSMENT AREA

A review of sampled loans originated during the period of November 1, 1995, through April 31, 1996, revealed a significant majority of the loans made were to persons or entities inside the assessment area and the institution's performance is excellent. The examiner analysis entailed a review of 118 loans (including 66 consumer, 31 small business, and 21 small farm loans) to determine to bank's lending inside and outside its assessment area. According to the examiners' calculations, 86 percent of consumer loans, 81 percent of small business loans, and 71.43 percent of small farm loans originated since the last assessment were within the bank's assessment area. According to bank

management, several of the loans made for small farms were made on properties lying in the county, however, the mailing address of the applicants might be outside the county. Additionally, some loans were made to long-time customers who do not reside in the assessment area, but have remained loyal to the bank, in spite of the distance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

A review of the bank's distribution of loans in its assessment area by business revenue and borrower income was performed on the sampled loans. Because bank management typically does not rely on business revenue for small business loans and most small farm loans, the analysis was performed on the borrower income. During the review of the loan files, it was noted that most small farms and small businesses were sole proprietorships, so financial statements did not separate business revenue from personal income. The loan distribution among the various businesses and farms revealed an exceptional distribution. Of the small business (commercial) loans sampled, 100 percent of the loans were made to borrowers with incomes of \$250 thousand or less.

Furthermore, in at least three instances, the security on the loans consisted of crops located in one county and livestock located in another. Therefore, assigning a geographic location for the total loan amount was difficult because it was hard to decide what portion of the loan amounts to allocate to which location.

TEXAS NON-METROPOLITAN MEDIAN FAMILY INCOME \$28,700		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0-50%	\$14,350
MODERATE-INCOME	50-80%	\$22,960
MIDDLE-INCOME	80-120%	\$34,440
UPPER-INCOME	120% and over	over \$34,440

Loan Sample by Income Level		
	Consumer Loan	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
LOW-INCOME	16	28.57
MOD-INCOME	16	28.57
MID-INCOME	10	17.86
UPP-INCOME	14	25.00
TOTAL *	56	100.00

*Total excludes ten loans originated outside the bank's assessment area. A majority (57%) of consumer loans reviewed were made to low- and moderate-income persons.

GEOGRAPHIC DISTRIBUTION OF LOANS

Because the bank's assessment area is a block numbering area ("BNA"), all of the area is designated as middle income. Bank management stated that the area is comprised of a mixture of income levels and when the city tries to apply for government assistance, it is necessary to canvass door-to-door to obtain information to justify the requests for items such as Community Development Block Grant ("CDBG") funds to qualify as an area with the appropriate amount of low- and -moderate-income persons.

Since the area is middle income, an analysis of the loans within the assessment area would not yield any meaningful results. However, because the analysis of loan distribution by borrower income revealed a majority of loans were made to low- and moderate-income persons, it appears the bank is meeting the needs of low- and moderate-income members of the community.

RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.